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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 001342

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SUBJECT: PA NEEDS ARAB SUPPORT TO MAKE JULY SALARY PAYMENTS

REF: A. JERUSALEM 1201
[B](#). RIYADH 1137

Classified By: Consul General Jake Walles for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary. Palestinian Authority (PA) Ministers have publicly stated that the PA will not be able to pay July's salaries without receipt of additional "Arab and foreign" assistance. So far in July, the PA has received only the European Commission's monthly contribution of USD 23 million (which was used to pay June salaries at the beginning of the month). Promises of additional Arab support (from Saudi Arabia, Kuwait and the UAE) have not yet materialized. End Summary.

Financial Crisis Ahead?

[1](#)2. (C) The PA Ministers of Foreign Affairs and Planning have each spoken publicly in recent days of a "financial crisis" that will make it impossible for the PA to pay its employees' July salaries (due the first week of August) absent significant additional outside assistance. PA Ministry of Finance Director General Mazen Jadallah told EconChief on July 24 that PM Fayyad has decided that there would be no partial payment of salaries if the PA does not receive the necessary budget support this month.

[1](#)3. (SBU) The PA pays approximately USD 130 million/month in salaries. It also committed to paying wage arrears accumulated under the Hamas government at a rate of approximately USD 20 million/month. In addition, Jadallah reports that the PA was forced to take substantial bank loans last month, part of which must be paid off before the banks will agree to execute salary payments. Jadallah believes this will require an additional USD 40 million. All told, the PA needs approximately USD 190 million before the first week of August. (This requirement does not include the PA's USD 70 million/month non-wage operating budget.)

[1](#)4. (SBU) During the first week of August, the PA expects to receive the EC's monthly contribution of USD 23 million and a clearance revenue transfer from the GOI of approximately USD 80 million. Jadallah said the PA is focused on promises of Saudi, Kuwaiti, and Emirati assistance to fill the remaining gap.

PA reports lower Saudi support figures

[1](#)5. (C) PA reporting of assistance from Saudi Arabia does not track with the amounts reported ref B. So far in 2008, the PA reports that it has received budget assistance from Riyadh totaling USD 77,383,263. The PA Ministry of Finance expects a further USD 15.5 million to be transferred in the coming

weeks, but they do not have confirmation. When that payment is received, Saudi Arabia will have fulfilled the budget support component of its Paris pledge, equivalent to its annual Arab League quota of USD 92 million.

¶6. (C) According to PA Presidential Advisor Majdi Khalidi, PA President Mahmud Abbas (Abu Mazen) was promised USD 250 million by King Abdullah in 2007. (Post believes this is likely the "voluntary contribution" referenced reftel.) Khalidi understands this money was allocated to the "Saudi Fund" in 2007 to finance projects in the West Bank and Gaza -- not as budget support for the PA. The PA successfully lobbied to have USD 50 million of that sum transferred as budget support in May 2007 (under the NUG). The remaining USD 200 million remains in the Saudi Fund and, according to Khalidi, there are no ongoing disbursement discussions. When President Abbas has referred to this money in previous discussions with the Consul General, he has quoted King Abdullah telling him the funds would be transferred "when you ask" and implying the funds could be used as Abbas wanted.

¶7. According to Khalidi, the PA is also trying to convince Riyadh to transform part of its USD 500 million Paris pledge of project support into cash assistance. Khalidi says the PA has not given Riyadh a specific amount, but is hoping for something on the order of USD 150 million. Jadallah says the PA has been asking the Saudis for a meeting for the past two months, but has not received "any answer."

¶8. (C) Post is unable to identify the other budget support figures reported reftel (totaling USD 80.8 million). Those figures do not correspond to any 2008 assistance received, as

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reported by the PA and reviewed by at least two IMF Missions.

Saudi assistance to the Jerusalem Fund, the Rafah Housing Fund and as "piecemeal donations" does not correspond to any pledge and does not contribute to the PA's recurrent budget needs. (Post also has no authoritative way to track them.)

Waiting for Kuwait,
Hopeful of the UAE,
and Resigned on Qatar

¶9. (C) Both Khalidi and Jadallah confirmed on July 24 that the PA has heard nothing more from Kuwait on the status its pledged USD 80 million transfer through the World Bank Trust Fund. Khalidi told EconChief on July 24 that he was "trying in every way" to encourage the Kuwaitis to transfer these funds. Local World Bank officials report they have heard nothing from Kuwait since the World Bank's West Bank and Gaza Director, David Craig, traveled earlier this month to Kuwait City to deliver the required paperwork to officials at the Kuwait Fund for Development.

¶10. (C) The PA is optimistic that the UAE will come through with an additional USD 42 million in budget support. Khalidi said the Emirates "are doing very well" and Jadallah said he is confident this additional sum will arrive. In contrast, Khalidi reports the PA is not even trying to secure additional assistance from Qatar. "They decided just to pay when Hamas is in power," Khalidi said. "They paid 150 million dollars to Hamas and nothing since."

Western Donors Keep Squeezing

¶11. (C) Jadallah said that the PA is working to finalize World Bank and EC mechanisms to transfer recent pledges from Canada, the UK and Italy. Though hopeful (and appreciative) of these additional contributions, Jadallah made clear that they would not add up to much more than USD 60 million, and would not solve the PA's current budget woes.

WALLES